

110TH CONGRESS
1ST SESSION

H. R. 3907

To amend the Internal Revenue Code of 1986 to provide tax relief for
small businesses.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 18, 2007

Mr. MURPHY of Connecticut introduced the following bill; which was referred
to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide
tax relief for small businesses.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Small Business Tax
5 Relief Act of 2007”.

6 **SEC. 2. WORK OPPORTUNITY CREDIT MADE PERMANENT.**

7 (a) IN GENERAL.—Subsection (c) of section 51 of the
8 Internal Revenue Code of 1986 is amended by striking
9 paragraph (4).

1 (b) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to amounts paid or incurred to
3 individuals who begin work for the employer after the date
4 of the enactment of this Act.

5 **SEC. 3. NEW MARKETS TAX CREDIT MADE PERMANENT.**

6 (a) IN GENERAL.—Subparagraph (D) of section
7 45D(f)(1) of the Internal Revenue Code of 1986 (relating
8 to national limitation on amount of investments des-
9 ignated) is amended by striking “for 2006, 2007, and
10 2008” and inserting “for 2006 and each calendar year
11 thereafter”.

12 (b) EFFECTIVE DATE.—The amendment made by
13 this section shall take effect on the date of the enactment
14 of this Act.

15 **SEC. 4. QUALIFIED LEASEHOLD IMPROVEMENT PROPERTY**
16 **AND QUALIFIED RESTAURANT PROPERTY**
17 **TREATED AS 15-YEAR PROPERTY.**

18 (a) IN GENERAL.—Clauses (iv) and (v) of section
19 168(e)(3)(E) of the Internal Revenue Code of 1986 are
20 each amended by striking “placed in service before Janu-
21 ary 1, 2008”.

22 (b) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to property placed in service after
24 December 31, 2007.

1 **SEC. 5. RESEARCH CREDIT.**

2 (a) IN GENERAL.—Section 41 of the Internal Rev-
3 enue Code of 1986 is amended by striking subsection (h).

4 (b) CONFORMING AMENDMENT.—Section 45C(b)(1)
5 of such Code (relating to qualified clinical testing ex-
6 penses) is amended by striking subparagraph (D).

7 (c) EFFECTIVE DATE.—The amendments made by
8 this section shall apply to amounts paid or incurred after
9 December 31, 2007.

10 **SEC. 6. EXPENSING OF ENVIRONMENTAL REMEDIATION**
11 **COSTS.**

12 (a) IN GENERAL.—Section 198 is amended by strik-
13 ing subsection (h).

14 (b) EFFECTIVE DATE.—The amendment made by
15 this section shall apply to expenditures paid or incurred
16 after December 31, 2007.

17 **SEC. 7. INCREASE IN EXCLUSION OF GAIN FROM QUALI-**
18 **FIED SMALL BUSINESS STOCK.**

19 (a) IN GENERAL.—Paragraph (1) of section 1202(a)
20 of the Internal Revenue Code of 1986 is amended by strik-
21 ing “50 percent” and inserting “62.5 percent”.

22 (b) EMPOWERMENT ZONE BUSINESSES.—Subpara-
23 graph (A) of section 1202(a)(2) is amended—

24 (1) by striking “60 percent” and inserting “75
25 percent”, and

1 (2) by striking “50 percent” and inserting
2 “62.5 percent”.

3 (c) EFFECTIVE DATE.—The amendments made by
4 this section shall apply to sales or exchanges of qualified
5 small business stock in taxable years beginning after the
6 date of the enactment of this Act.

7 **SEC. 8. QUALIFIED SMALL BUSINESSES ELECTION OF TAX-**
8 **ABLE YEAR ENDING IN A MONTH FROM**
9 **APRIL TO NOVEMBER.**

10 (a) IN GENERAL.—Part I of subchapter E of chapter
11 1 of the Internal Revenue Code of 1986 (relating to ac-
12 counting periods) is amended by inserting after section
13 444 the following new section:

14 **“SEC. 444A. QUALIFIED SMALL BUSINESSES ELECTION OF**
15 **TAXABLE YEAR ENDING IN A MONTH FROM**
16 **APRIL TO NOVEMBER.**

17 “(a) GENERAL RULE.—A qualified small business
18 may elect to have a taxable year, other than the required
19 taxable year, which ends on the last day of any of the
20 months of April through November (or at the end of an
21 equivalent annual period (varying from 52 to 53 weeks)).

22 “(b) YEARS FOR WHICH ELECTION EFFECTIVE.—An
23 election under subsection (a)—

24 “(1) shall be made not later than the due date
25 (including extensions thereof) for filing the return of

1 tax for the first taxable year of the qualified small
2 business, and

3 “(2) shall be effective for such first taxable year
4 or period and for all succeeding taxable years of
5 such qualified small business until such election is
6 terminated under subsection (c).

7 “(c) TERMINATION.—

8 “(1) IN GENERAL.—An election under sub-
9 section (a) shall be terminated on the earliest of—

10 “(A) the first day of the taxable year fol-
11 lowing the taxable year for which the entity
12 fails to meet the gross receipts test,

13 “(B) the date on which the entity fails to
14 qualify as an S corporation, or

15 “(C) the date on which the entity termi-
16 nates.

17 “(2) GROSS RECEIPTS TEST.—For purposes of
18 paragraph (1), an entity fails to meet the gross re-
19 ceipts test if the entity fails to meet the gross re-
20 ceipts test of section 448(c).

21 “(3) EFFECT OF TERMINATION.—An entity
22 with respect to which an election is terminated
23 under this subsection shall determine its taxable
24 year for subsequent taxable years under any other
25 method that would be permitted under subtitle A.

1 “(4) INCOME INCLUSION AND DEDUCTION
2 RULES FOR PERIOD AFTER TERMINATION.—If the
3 termination of an election under paragraph (1)(A)
4 results in a short taxable year—

5 “(A) items relating to net profits for the
6 period beginning on the day after its last fiscal
7 year-end and ending on the day before the be-
8 ginning of the taxable year determined under
9 paragraph (4) shall be includible in income rat-
10 ably over the succeeding 4 taxable years, or (if
11 fewer) the number of taxable years equal to the
12 fiscal years for which the election under this
13 section was in effect, and

14 “(B) items relating to net losses for such
15 period shall be deductible in the first taxable
16 year after the taxable year with respect to
17 which the election terminated.

18 “(d) DEFINITIONS.—For purposes of this section—

19 “(1) QUALIFIED SMALL BUSINESS.—The term
20 ‘qualified small business’ means an entity—

21 “(A)(i) for which an election under section
22 1362(a) is in effect for the first taxable year or
23 period of such entity and for all subsequent
24 years, or

1 “(ii) which is treated as a partnership for
2 the first taxable year or period of such entity
3 for Federal income tax purposes,

4 “(B) which conducts an active trade or
5 business or which would qualify for an election
6 to amortize start-up expenditures under section
7 195, and

8 “(C) which is a start-up business.

9 “(2) START-UP BUSINESS.—For purposes of
10 paragraph (1)(C), an entity shall be treated as a
11 start-up business so long as not more than 75 per-
12 cent of the entity is owned by any person who pre-
13 viously conducted a similar trade or business at any
14 time within the 1-year period ending on the date on
15 which such entity is formed. For purposes of the
16 preceding sentence, a person and any other person
17 bearing a relationship to such person specified in
18 section 267(b) or 707(b)(1) shall be treated as one
19 person, and sections 267(b) and 707(b)(1) shall be
20 applied as if section 267(c)(4) provided that the
21 family of an individual consists of the individual’s
22 spouse and the individual’s children under the age of
23 21.

1 “(3) REQUIRED TAXABLE YEAR.—The term ‘re-
2 quired taxable year’ has the meaning given to such
3 term by section 444(e).

4 “(e) TIERED STRUCTURES.—The Secretary shall
5 prescribe rules similar to the rules of section 444(d)(3)
6 to eliminate abuse of this section through the use of tiered
7 structures.”.

8 (b) CONFORMING AMENDMENT.—Section 444(a)(1)
9 of such Code is amended by striking “section,” and insert-
10 ing “section and section 444A”.

11 (c) CLERICAL AMENDMENT.—The table of sections
12 for part I of subchapter E of chapter 1 of such Code is
13 amended by inserting after the item relating to section
14 444 the following new item:

“444A. Qualified small businesses election of taxable year ending in a month
from April to November.”.

15 (d) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to taxable years beginning after
17 the date of the enactment of this Act.

18 **SEC. 9. INCREASE IN MAXIMUM NUMBER OF S CORPORA-**
19 **TION SHAREHOLDERS.**

20 (a) IN GENERAL.—Subparagraph (A) of section
21 1361(b)(1) is amended by striking “100” and inserting
22 “150”.

1 (b) EFFECTIVE DATE.—The amendment made by
 2 subsection (a) shall apply to taxable years beginning after
 3 the date of the enactment of this Act.

4 **SEC. 10. GOVERNMENT CONTRACTS WITH SMALL BUSI-**
 5 **NESSES NOT SUBJECT TO TAX WITHHOLDING.**

6 (a) IN GENERAL.—Paragraph (2) of section 3402(t)
 7 is amended by striking “and” at the end of subparagraph
 8 (H), by striking the period at the end of subparagraph
 9 (I) and inserting “, and”, and by adding at the end the
 10 following new subparagraph:

11 “(J) to any specified small business.”.

12 (b) SPECIFIED SMALL BUSINESS.—Subsection (t) of
 13 section 3402 is amended by redesignating paragraph (3)
 14 as paragraph (4) and by inserting after paragraph (2) the
 15 following new paragraph:

16 “(3) SPECIFIED SMALL BUSINESS.—For pur-
 17 poses of this subsection, the term ‘specified small
 18 business’ means a corporation or partnership which
 19 meets the gross receipts test of section 448(c) for
 20 the taxable year prior to the taxable year in which
 21 the payment is received (or, in the case of a sole
 22 proprietorship, which would meet such test if such
 23 proprietorship were a corporation).”.

24 (c) EFFECTIVE DATE.—The amendments made by
 25 this section shall take effect as if included in section 511

1 of the Tax Increase Prevention and Reconciliation Act of
2 2005.

